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SUBJECT: Mexico Economic Weekly - January 22

¶1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE

13. (U) EMPLOYMENT CONTINUES DOWNWARD TREND: Mexico's national statistics agency (INEGI) released an employment report for December that indicates a continued downward trend. The unemployment rate was 4.8 percent in December, somewhat lower than market expectations of about 5.5 percent. In seasonally-adjusted terms, Mexico's ratio of unemployed individuals to total workforce declined to 5.4 percent in December, from 5.6 percent a month earlier. Men's jobless rate declined to 5.4 percent, from 5.7 percent in November, while the proportion of unemployed women to the country's economically-active female population shrunk to 5.3 from 5.4 percent. (Mexico City)

14. (U) OVER ONE THOUSAND COMPANIES CLOSE IN NUEVO LEON IN 2009: According to the Mexican Social Security Institute (IMSS), the number of employers in Nuevo Leon fell from 58,071 in 2008 to 56,947 in 2009, a loss of 1,124 companies, marking the largest drop in employers in nine years. The hardest hit sectors included manufacturing industry, construction, commercial services and transportation and communications. (Monterrey)

15. (U) NUEVO LEON RECOVERS LOST JOBS IN 2009: Despite a nine-year record loss of employers, since May 2009 Nuevo Leon has recovered around 50 percent of the 80,000 jobs the state lost from October 2008 to May 2009, according to a Nuevo Leon Secretariat of Employment and Social Security (STPS) official. According to Banco de Mexico figures, in 2009 Nuevo Leon lost 45,452 jobs, fourth worst among Mexican states. Overall, the Mexican Social Security Institute (IMSS) reported that Nuevo Leon began 2010 with 150,000 unemployed. (Note: Nuevo Leon has a sizeable informal sector not covered by IMSS statistics. The actual number of unemployed may be significantly higher. End note.) (Monterrey)

16. (U) ECONOMIC SLOWDOWN LOWERS UNIVERSITY ENROLLMENT, THREATENS HUMAN CAPITAL DEVELOPMENT: The economic slowdown in Ciudad Juarez has led to a decline in university student enrollment and a spike in late or unpaid tuition payments. "Juarez students are increasingly abandoning their studies because of economic difficulties," said Dr. Diana Natalicio, President of the University of Texas at El Paso. From 2008 to 2009, Mexican student enrollment at UTEP fell from 1,700 to 1,415. According to Natalicio, these students are largely lower middle class residents of Juarez, who are unable to pay tuition because their family business closed or their parents were laid off. Since 2007, as

many as 3,000 small and medium enterprises (SMEs) have closed in Ciudad Juarez and nearly a third of the city's maquila workforce has been fired. The Juarez Technological Institute (ITCJ), one of the three largest universities in the city, reported a 300% year-over-year increase (200 to 800 students) in students requesting tuition payment extensions for 2009. University administrators from ITCJ, and two other major universities in the city told local media they are working to expand scholarship programs to keep talented students in school. Despite these efforts, they expressed concern that the current crisis may have a long term impact on local human capital development. (Ciudad Juarez)

TRADE AND INVESTMENT

17. (U) ACCELERATED OIL DECLINE IN CANTARELL: The decline in Cantarell's oil output has accelerated from a decline of 100,000 bpd in 2005 to 400,000 in 2008 and 2009. Oil output in Cantarell grew until 2004, when it reached a record production of 2.13 million bpd, but Pemex extracted only 633,000 bpd from January through November of 2009, a decline of 405,000 bpd only partially offset by production in KMX. Total oil output in Mexico dropped by 310,000 bpd during the same period. In 2009, KMX surpassed Cantarell as Mexico's main oil field. In 2008, Mexico registered the worse oil output decline in the world. According to Pemex and the Energy Secretariat, Cantarell's decline has been controlled. However, if the outlook does not improve, Mexico could become a net oil importer in 2020. (Mexico City)

18. (U) MATAMOROS MAQUILA EXPANSION STATISTICS FOR 2009 AND FORECAST FOR 2010: On January 21st, the Matamoros Economic Development Committee (CODEM) reported expansion statistics for maquilas in the Matamoros area during 2009. Ten maquilas added an additional 287,000 square feet (sq ft), which represents 5 percent of the available industrial square footage in Matamoros. The maquilas, which employ over 600 people, come from a variety of industries, including automotive, plastics, medical, petrochemicals, general manufacturing, and industrial services. Rodolfo Saucedo, director of CODEM also said nine additional prospects for 2010 from the US, Mexico and Russia have the

potential to add 400,000 sq ft of industrial square footage. They represent industries such as automotive, plastics, petrochemicals, wind energy, and electronics. (Matamoros)

¶9. (U) FDI FOR 2009 FALLS IN NUEVO LEON: Foreign direct investment (FDI) in Nuevo Leon fell four percent in the past year according to the state's Secretary of Economic Development Othon Ruiz Montemayor. In 2009, FDI dropped to USD 1.39 billion in contrast to the 2008 total of USD 1.44 billion. Ruiz attributed the drop to the worldwide economic downturn rather than investor security concerns about Mexico's rising crime problems. For 2010, an official at the Secretariat of Economic Development predicted FDI inflows would remain relatively constant at USD 1.4 billion and generate 7,500 jobs. (Monterrey)

¶10. (U) CEMEX CONTINUES TO OFFER BONDS: On January 13, the multinational building materials company Cemex returned to the securities market with a USD 500 million bond offering, the company's second international issue in as many months. In December, Cemex sold USD 1.25 billion in bonds, which marked the company's return to international bond markets. The December offering came nine months after Cemex failed to sell USD 500 million of securities, forcing it to extend payments on bank debt. Cemex reached a USD 15 billion refinancing agreement with its banks in August to avoid default after the weak economy in the U.S.

eroded revenue. (Monterrey)

¶11. (U) ALFA REPORTS BEST EBITA IN ITS HISTORY: Alfa, the Monterrey-based conglomerate, reported fourth-quarter earnings before interest, taxes, depreciation and amortization (Ebitda) at USD 290 million on January 11. For all of 2009, Ebitda, a measure of cash flow, is estimated to have grown 9 percent in 2009 to USD 1.06 billion. "We can confirm that last year's Ebitda was the best we've had in our history, which is even more relevant considering that in 2009 we passed through the worst global economic crisis of the past 80 years," said Mario Paez, the company's director of planning and finance in a press release. Alfa expects to report 2009 revenues of US\$8.54 billion. Alfa's businesses include a petrochemicals company (Alpek), auto parts manufacturer (Nemak), telecommunications unit (Alestra), and refrigerated foods producer (Sigma). The company's local shares recently traded 1.2 percent higher at 86.60 pesos (USD 6.84). (Monterrey)

¶12. (U) HEINEKEN BUYS FEMSA FOR US\$7.64 BILLION: Dutch Heineken NV announced its purchase of drinks-and-retail giant Femsa's beer unit for US\$7.64 billion on January 11. The all-stock transaction will place Heineken as the second largest brewer in Mexico. Heineken, which triumphed over rival bidder SABMiller PLC, will assume USD 2.1 billion of Femsa's debt. Monterrey-based Femsa will get a 20 percent stake in Heineken and Femsa representatives will get two seats on Heineken's supervisory board. Femsa's beer business in Mexico has a 43 percent market share by volume, but has lost ground to Corona producer Grupo Modelo SAB. Heineken, the world's third largest brewer by sales volume, secured a 10-year exclusivity agreement with Femsa that enables it to sell beer in Oxxo, Femsa's convenience-store chain. (Monterrey)

TRANSPORTATION AND INFRASTRUCTURE

¶13. (U) US CONSULATE SUPPORTS AEROSPACE FORUM IN TIJUANA: The American Consulate in Tijuana and the U.S. Commercial Service's

Northwest office are supporting the 1st Aerospace Supplier's Forum to be held in Tijuana on March 17 -18. The event is sponsored by the Tijuana Secretariat of Economic Development and the Ministry of Economy. The forum will consist of morning conferences and midday one-on-one business matchmaking meetings. Baja California has over 40 firms that manufacture, assemble, repair and design aircraft parts and components. Most of these companies are located in the Mexicali-Tecate-Tijuana corridor. The aerospace industry employs more than 12,000 people in Baja California, which represents 50% of the Aerospace employment in Mexico. Buyers planning to attend the event include Eaton, Zodiac Aerospace, Lockheed Martin, Parker, Delphi, Suntron. (Tijuana)

ENERGY AND ENVIRONMENT

¶14. (U) NSC OFFICIALS VISIT MEXICO CITY: Senior officials from the National Security Council (NSC) attended G20 meetings hosted by the GOM on January 13 and 14. They also met with the new Governor of the Bank of Mexico, Augustin Carstens, and the Hacienda Secretary Ernesto Cordero to discuss bilateral economic issues. NSC representatives then met with counterparts at the Ministry of Foreign Affairs (SRE) to discuss the outcome of the COP 15 climate change meetings and how to move forward with the Copenhagen Accord.

Officials from the SRE confirmed that the GOM plans to host COP 16 in Cancun, rather than Mexico City, from November 29 to December 10 of this year. (Mexico City)

¶15. (U) NUEVO LEON RECEIVES USD 3.2 MILLION FOR GREEN INITIATIVES: The 2010 Mexico Federal Expenditures Budget has designated US 3.2 million for environmental and natural resource projects in Nuevo Leon, the only state to receive federal funding for "green projects". These projects include USD 284,500 for the purchase of a new environmental monitoring station, US 103,000 for reducing health risks in landfills, and USD 1.1 million for research into clean development mechanisms. (Monterrey)
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